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RUCNDT/USMISSION USUN NEW YORK 1958
RUEHNO/USMISSION USNATO 2294
RHEBAAA/DEPT OF ENERGY WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
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RHEHNSC/NSC WASHDC 0281
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SENSITIVE
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SUBJECT: KAZAKHSTAN: CITIBANK EXECUTIVES DISCUSS THEIR LOCAL
OPERATIONS AND PLANS

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¶11. (U) Sensitive but unclassified. Not for public Internet.

¶12. (SBU) SUMMARY: During an October 22 meeting with the Ambassador, Shirish Apte, CEO of Citibank Central and Eastern Europe, and Dan Connelly, CEO of Citibank Kazakhstan, described Citibank as doing very well in Kazakhstan. They disclosed a recent agreement for Citibank to serve as the banking institution for the Kashagan consortium. The two also offered a somewhat pessimistic prognosis for the Kazakhstani banking sector over the coming year.
END SUMMARY.

ONGOING SUPPORT FOR WESTERN OIL COMPANIES

¶13. (SBU) Citibank established a representational office in Kazakhstan in 1994, in Almaty, and opened its first bank branch in the country in 1998. Many of the larger western companies operating in Kazakhstan are Citibank clients, including those in the oil and gas sector. Apte said that Citibank has avoided consumer banking for fear of possible money laundering, but that business overall is very good. He disclosed that Citibank had recently signed a custody agent agreement to provide banking services for the six partners in the Kashagan consortium. Generally enthusiastic about the arrangement, Apte nevertheless expressed concern about the possibility of being caught in the middle of a financial conflict between the Kazakhstani government and the other consortium members.

BANKING SECTOR COULD FACE SEVER DIFFICULTIES

¶14. (SBU) Apte and Connelly offered a somewhat pessimistic take on the Kazakhstani banking sector for the coming period. Pointing to "challenging markets and times for many economies," Apte argued that

Kazakhstan can do little wrong because of its energy riches, wealth of mineral resources, and strong agricultural base. He said that, nevertheless, Kazakhstan will be facing some special challenges in the coming year. According to Apte, the banking system is "very stretched." Explaining that as bankers they are not particularly fond of regulation, Apte and Connally nonetheless admitted that there is a serious lack of financial regulation in Kazakhstan. Apte said that unlike the banking crisis in the United States, which is more or less contained among domestic lenders, banks here are very exposed to the global market.

¶ 15. (SBU) Apte noted that one-fourth of the foreign debts of Kazakhstan's banking sector are set to mature next year. When the markets open up next year, Kazakhstani banks will thus need to borrow more money. However, it is increasingly likely that overseas banks will not roll over their existing credit to Kazakhstani banks.

According to Apte, if oil prices continue to drop, this will also increase the likelihood that the banks will be denied the necessary rollover. In Apte's opinion, the discontinued lending of overseas banks combined with a possible run on deposits by consumers could set into motion a banking sector crisis, requiring a Kazakhstani government bailout. When asked if he was "cautiously optimistic," Apte said he would prefer to "wait and see" before sharing any optimism. According to Apte, there is already a 30-40% probability that there will be no rollover for the loans.

CITIBANK LOOKING FOR WORK WITH THE GOVERNMENT

¶ 16. (SBU) Following the meeting with the Ambassador, Apte and Connally were scheduled to meet with Finance Minister Zhamishev. According to Apte, Citibank would like to officially offer its consulting services to the Kazakhstani government. He noted that they have had "some experience in these situations." Citibank would also be willing to offer financing for government bond issues in the future, if needed.

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